



# WEEKLY ECONOMIC DIGEST

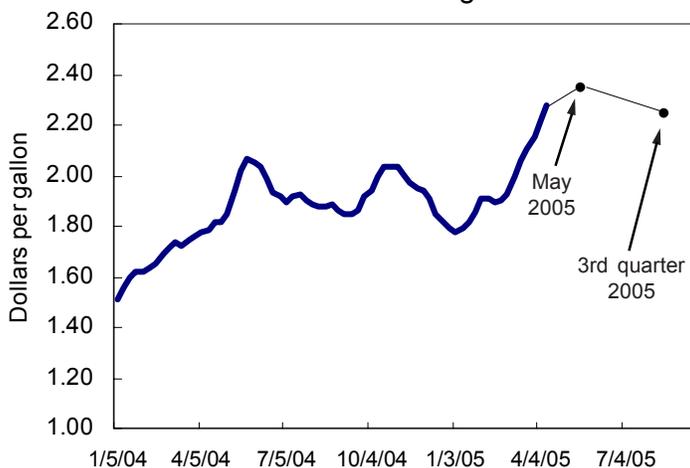


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF  
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

April 12, 2005

## Crude Oil Prices Fall Back, but Gasoline Prices May Still Spring Ahead

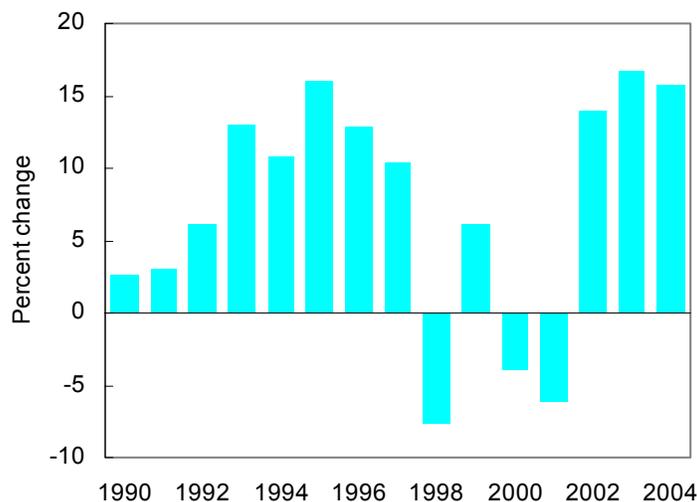
Retail Gasoline Price: Regular Grade National Average



Source: Energy Information Administration, U.S. Department of Energy.

• Energy Information Administration forecasts

Corporate Profits from Current Production



Source: Bureau of Economic Analysis, U.S. Department of Commerce.

- **Crude oil prices moderated some last week.** Although still high, crude oil prices have eased off their recent peaks. For example, after rising to \$57.28 per barrel on April 1, the spot price of West Texas Intermediate Cushing fell to \$53.33 per barrel by the end of last week. Fears that petroleum supplies would be insufficient to meet growing demand have abated on reports that inventories of crude petroleum continued to post solid gains in early April. Analysts expect oil prices to continue to moderate over the near term as suppliers boost the rate of production. Even so, financial markets continue to reflect concern about the possible impact of high oil prices on the economy.

- **Further increases in gasoline prices are expected.** Even as crude oil prices slipped, retail gasoline prices continued climbing as past increases in crude prices were passed through to the prices of refined products. The average retail price of regular grade gasoline was \$2.28 per gallon for the nation as a whole at the start of this week (see top chart), with pump prices highest on the west coast. The Department of Energy expects monthly average prices to peak in May at \$2.35 per gallon. While high, that is still well below the peak of \$3.12 (in today's dollars) reached in 1981.

- **Corporate profits rose sharply in 2004.** Corporate profits from current production rose by 15.7 percent in 2004, according to recent data from the Bureau of Economic Analysis (see bottom chart). Over the past three years, the share of corporate profits in gross domestic product (GDP) rose by 2.5 percentage points. Over the same period, the share of labor compensation (which includes benefits as well as wages and salaries) fell by 2.2 percentage points. That is the largest three-year decline in the compensation share since 1948.

The Economy at a Glance	Mar	Feb	Jan	Dec	2005 Qtr 1	2004 Qtr 4	2004 Qtr 3	2004 Qtr 2	2004	2003
<b>Economic Activity</b>										
Real GDP (% growth)	—	—	—	—	n.a.	3.8	4.0	3.3	4.4	3.0
Industrial Production (% growth)*	n.a.	3.7	1.2	10.0	n.a.	4.4	2.7	4.3	4.1	0.0
Capacity Utilization (level, %)*	n.a.	79.4	79.2	79.2	n.a.	78.8	78.2	77.9	78.1	75.5
Civilian Unemployment Rate (level, %)	5.2	5.4	5.2	5.4	5.3	5.4	5.5	5.6	5.5	6.0
Housing Starts (thousands)	n.a.	2195	2183	2056	n.a.	1975	1969	1920	1952	1853
Real Disposable Personal Income (% growth)	n.a.	0.8	3.9 <sup>#</sup>	9.7 <sup>#</sup>	n.a.	3.5 <sup>#</sup>	2.9	2.8	3.2 <sup>#</sup>	2.3
Retail Sales (% growth)*	n.a.	5.3	2.0	16.2	n.a.	10.2	6.2	7.1	7.3	4.3
Personal Saving Rate (level, %)	n.a.	0.6	0.8	0.4 <sup>#</sup>	n.a.	0.5 <sup>#</sup>	0.7	1.3	0.9 <sup>#</sup>	1.4
<b>Inflation &amp; Productivity</b>										
CPI-U Inflation, all items (% growth)	n.a.	4.9	1.2	0.0	n.a.	3.6	1.6	4.4	2.7	2.3
Core CPI-U Inflation (% growth)	n.a.	3.7	2.4	2.4	n.a.	2.3	1.7	2.6	1.8	1.5
Employment Cost Index (% growth)	—	—	—	—	n.a.	2.8	3.6	4.1	3.8	4.0
Output per Hour (% growth)	—	—	—	—	n.a.	2.1	1.3	3.9	4.0	4.4
<b>Financial Markets</b>										
T-bill Rate, 3-month (level, %)	2.74	2.54	2.33	2.19	2.54	2.01	1.49	1.08	1.37	1.01
T-note Rate, 10-years (level, %)	4.50	4.17	4.22	4.23	4.30	4.17	4.30	4.60	4.27	4.01
Federal Funds Rate (level, %)	2.63	2.50	2.28	2.16	2.47	1.95	1.43	1.01	1.35	1.13
Dow Jones Industrial Avg (index level)	10682	10724	10540	10673	10648	10362	10130	10289	10317	8994

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

\* Subject to revision over the next week.

# Adjusted by the JEC staff to exclude the temporary effects of Microsoft's special dividend payment in December 2004.

### Upcoming Economic Releases:

- **U.S. International Trade in Goods and Services: February 2005** [Release: Tuesday, April 12]
- **Advance Monthly Sales for Retail and Food Services: March 2005** [Release: Wednesday, April 13]
- **U.S. Import and Export Price Indexes: March 2005** [Release: Friday, April 15]
- **Industrial Production and Capacity Utilization: March 2005** [Release: Friday, April 15]